



2355 West Pinnacle Peak Road, Suite 300  
Phoenix, AZ 85027 USA  
[epcor.com](http://epcor.com)

March 27, 2023

Docket Control  
Commissioner Nick Myers  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

RE: Response of EPCOR Water Arizona, Inc.  
IN THE MATTER OF THE JOINT APPLICATION OF EPCOR WATER ARIZONA, INC. AN  
ARIZONA CORPORATION: (1) FOR APPROVAL OF ITS PROPOSED STANDPIPE WATER  
TARIFF; AND (2) ESTABLISHMENT OF A CERTIFICATE OF CONVENIENCE AND  
NECESSITY FOR STANDPIPE WATER SERVICE ONLY TO THE RIO VERDE FOOTHILLS  
COMMUNITY  
(DOCKET NO. W- 00000-22-0264)

Commissioner Myers:

In a letter dated February 2, 2023, you requested responses to certain question in advance of the evidentiary hearing scheduled to commence April 10. Your questions focused on EPCOR Water Arizona Inc.'s need to have the standpipe consolidated at the conclusion of its next Arizona water rate case (either with the Sonoran Water District or that would include all of EPCOR's water districts with the exception of its San Tan Water District). EPCOR Water Arizona Inc. provides the following responses.

1. *For EPCOR, what is the estimated bill impact of the requested consolidation, both for the Rio Verde Foothills Community standpipe customers and the existing Sonoran Water District? If there are other possible consolidation scenarios, what are they and what is their estimated bill impact?*

In response to a data request from Utilities Division Staff, EPCOR provided the following file entitled "STF 3.3 - Rev Requirement Calc 2022 - Standpipe Consol". This file provides the support for the following table that shows the estimated bill impacts for that provides the estimated per month bill impact for both (1) consolidation of the standpipe with just the current Sonoran Water District; and (2) a "Total Water District" (a scenario that presupposes consolidation of EPCOR's Sonoran, Sun City, Sun City West, Paradise Valley, Gateway water system, and Rio Verde Water Districts along with the Foothills standpipe – and excluding only the San Tan Water District and the Desert Hills / New River water station) with consolidation as well as the support for the estimated impacts. EPCOR also provides two scenarios: (1) a total standpipe rate base of \$5.0 million, which was the basis for the \$20 per kgal "placeholder rate" and (2) a total standpipe rate base of \$12.0 million, which is the increasingly likely total cost if EPCOR must build all of the facilities for the standpipe from scratch (which is also the increasingly likely option EPCOR will have to pursue).

<b>Rio Verde Foothills Standpipe</b>		
Standpipe Rate Base	\$ 5,000,000	\$ 12,000,000
Revenue Requirement	\$ 1,018,971	\$ 1,894,986
<b>Current Sonoran Water District</b>		
Current Sonoran Monthly Rate*	\$ 49.62	\$ 49.62
New Estimated Sonoran Rate*	\$ 50.26	\$ 50.80
<b>Increase per Month</b>	<b>\$ 0.64</b>	<b>\$ 1.18</b>
Increase Percentage	1.28%	2.39%
<b>EPCOR AZ Total Water Excluding San Tan</b>		
Estimated Total Water Monthly Rate*	\$ 43.71	\$ 43.71
New Estimated Total Water Rate*	\$ 44.09	\$ 44.42
<b>Increase per Month</b>	<b>\$ 0.38</b>	<b>\$ 0.71</b>
Increase Percentage	0.87%	1.62%
*Monthly Residential Bill (7,000 Gallons)		

As for the rate impacts, a standalone scenario assuming \$12.0 million of rate base for the standpipe would likely result in a volumetric rate of at least \$40 per kgal, which would be untenable and likely lead to the very impact noted in Mr. Thomas A. Loquvam's letter dated August 26, 2022, that was submitted in Docket No. WS-0000A-22-0294, but is also attached as part of EPCOR's Application in this matter. Especially if EPCOR must build entirely new facilities (Option #4 in Mr. Loquvam's December 7, 2022 correspondence in this docket) consolidation remains the sole viable option to mitigate rate impacts for Foothills residents utilizing the standpipe.

Further, while EPCOR provides the above information as illustrative as to what the rate impacts may look like, EPCOR continues to experience customer growth in its water districts, which will reduce the bill impacts shown in the preceding table. In other words, it is likely the bill impacts will be less than what is shown in the lines entitled "Increase per Month" if customer growth continues to occur.

2. *For Intervenors, do you support, oppose, or have no position on the consolidation request? Please provide your rationale for supporting or opposing the requested consolidation.*

Not applicable to EPCOR.

3. *For Intervenors, are there other possible consolidation scenarios that you would propose and why?*

Not applicable to EPCOR.

4. *For all parties, what are other actions the Commission could take, other than approving consolidation, that would provide EPCOR the certainty that it will recoup its investment related to providing standpipe water service to the Rio Verde Foothills Community?*

EPCOR believes that consolidation remains the viable option to provide it the certainty that it will recoup its investment, in trying to address the situation in the Foothills that is not of its own making. EPCOR's proposal, should the Commission approve its Application, balances the interests of providing a necessity of life for the current residents of the Foothills, while acknowledging that water is a precious and finite resource and that the supply it can procure is limited. In proposing the \$20 per kgal rate (subject to a true-

up as detailed in the Application) EPCOR also balances the need to have some level of certainty with proposing a rate that would not be completely untenable. This is especially true given that, and as it currently stands, the first three options set forth in my December 7 correspondence do not appear to be viable alternatives.

Finally, EPCOR will make best efforts to be as cost effective as possible in designing and constructing the necessary standpipe facilities to serve residents in the Rio Verde Foothills. Even so, the reality is that EPCOR will have to design and construct brand new facilities in an era of high inflation and interest rates – especially considering that this will be a new system most likely built from scratch. Thus, the costs will inevitably be substantial despite any and all cost-effective measures undertaken. This is exactly when consolidation can provide a great benefit – spreading what would otherwise be an outsized cost for a smaller group of customers across a large customer base. If consolidation does not occur, a small group of customers (around 500 to 700) will incur the burdens of a new system that costs more than \$10 million, leading to an untenable situation for *both* the residents and EPCOR. EPCOR maintains its belief that approving consolidation of the standpipe as proposed in its Application is lawful and in the public interest.

Regards,

*/s/ Jason D. Gellman*

Jason D. Gellman

Associate General Counsel